

FISCAL NOTE

SB 179 – HB 263

March 7, 2007

SUMMARY OF BILL: Enacts an excise tax credit equal to 15% of the amount spent by any taxpayer during any income year directly on research and experimental expenditures.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues – Exceeds \$9,000,000 - FY06-07

Exceeds \$58,000,000 - FY07-08 and thereafter

Increase State Expenditures - \$137,000 One-Time

Assumptions:

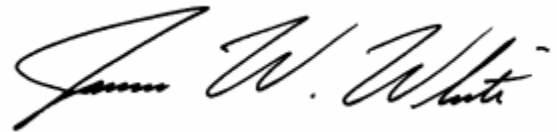
- Based on data from the National Science Foundation, research and development (R&D) expenditures in Tennessee are estimated to be approximately \$1.94 billion in 2008.
- According to the Department of Revenue (DOR), the fiscal impact of this bill is dependent upon its enactment date. Since the act becomes effective upon becoming law, excise tax collections would decrease in FY06-07 if passed before the end of the current fiscal year.
- Total excise tax credits authorized would be approximately \$291.0 million (\$1.94 billion X 15% credit = \$291.0 million) in the first full calendar year after enactment (for an average of approximately \$24,250,000 per month).
- Bill becomes law May 1, 2007.
- Excise tax credits can be carried forward up to 15 years.
- Excise tax credits cannot exceed a taxpayer's total excise tax liability.
- 20% of tax credits utilized in FY06-07; 80% remainder carried forward to FY07-08 and subsequent fiscal years. This ratio remains constant.
- The decrease to state revenues for FY06-07 is estimated to exceed \$9,000,000 (\$24,250,000 X 2 months X 20% utilized = \$9,700,000).
- The decrease to state revenues for FY07-08 is estimated to exceed (\$291.0 million X 20% utilization rate = \$58,200,000).
- Given the excise tax credits can be carried forward up to 15 years, and additional excise tax credits would continue to be authorized in

subsequent years, any decrease to state revenues is expected to accelerate significantly over time.

- The one-time increase to state expenditures for computer and software enhancements is estimated to be \$137,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive, flowing style with a large initial "J" and "W".

James W. White, Executive Director